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INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE  
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RUEAIIA/CIA WASHDC  
RHEHNSC/NSC WASHDC  
RUEKJCS/SECDEF WASHDC  
RUEKJCS/JOINT STAFF WASHDC  
RUEHGV/USMISSION GENEVA 0887  
RUEHVEN/USMISSION USOSCE 2886  
RUCNDT/USMISSION USUN NEW YORK 2271  
RUEHNO/USMISSION USNATO BRUSSELS BE  
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S E C R E T SECTION 01 OF 03 BISHKEK 000385

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DEPT FOR SCA/CEN (GEHRENBECK), EEB  
TREASURY FOR FINCEN  
KYIV PASS TO LANIER

E.O. 12958: DECL: 04/18/2018  
TAGS: [EFIN](#) [ECON](#) [PGOV](#) [KG](#)  
SUBJECT: KYRGYZ BANKING CONSOLIDATION RAISES FLAGS

REF: A. 07 BISHKEK 1155  
[1](#)B. BISHKEK 086  
[1](#)C. 06 BISHKEK 1261

BISHKEK 00000385 001.2 OF 003

Classified By: Amb. Marie L. Yovanovitch, Reason 1.4 (b) and (d).

[1](#)1. (S) Summary: The past year has witnessed at least two Kyrgyz banks, Kyrgyz Credit Bank and Kyrgyzpromstroibank (KPSB), fall into a network of businesses allegedly controlled by President Bakiyev's son, Maxim. The Kyrgyz central bank actively participated in shifting ownership of KPSB to associates of the Bakiyev family. These two banks reportedly join an alliance of other banks, headed by Asia Universal Bank (AUB), which has been previously associated with money laundering activities. With USG- and EBRD-backed institutions reporting difficulties in the bank licensing process, the Embassy is concerned about increased political interference and a weakening of central bank independence in the banking sector. The Bakiyev family's banking sector interests mirror the family's expansion into other Kyrgyz business sectors. End summary.

New Owners Transform Banks  
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[1](#)2. (C) During the past year, at least two Kyrgyz banks have shifted management and/or ownership control to associates of Kyrgyz President Bakiyev's son, Maxim. Embassy reported last summer on the forced transfer of Kyrgyz Credit Bank (KCB) from its Italian owner to a business partner of Maxim Bakiyev (reftel A). Earlier this year, the Kyrgyz state social fund and the National Bank of the Kyrgyz Republic (NBKR ) the central bank) engineered the collapse of Kyrgyzpromstroibank (KPSB) (reftel B) into KCB's hands.

[1](#)3. (C) In early April, Embassy learned additional details

regarding KPSB's downfall. In 2007, KPSB secured an agreement with the Kyrgyz state social fund to hold social fund deposits in the form of Kyrgyz treasury bills. After KPSB invested the funds in the treasury bills, the social fund demanded the immediate withdrawal of a significant portion of its deposits. KPSB struggled to secure the necessary liquidity, but other banks refused "under external pressure" to help. The following week, the NBKR intervened, seized the bank and eventually permitted the Maxim Bakiyev-affiliated KCB to obtain a majority stake in KPSB. KPSB's previous owner, a prominent opponent of the Bakiyev regime, received a resort property on Lake Issyk Kul and retained other assets as compensation.

¶4. (C) In a March 28 meeting with the Ambassador, NBKR Chairman Marat Alapayev confirmed the KCB acquisition of a 70-75% stake in KPSB (apparently in mid-March). KPSB has since renewed its operations. Embassy has heard that Asia Universal Bank (AUB) might purchase KPSB's branch network to aid in its retail expansion plans (discussed septel). In a separate development, Bishkek mayor Daniyar Usenov, who is reportedly close to Maxim Bakiyev, sold his bank, Ineximbank, to a Kazakh bank, which has rebranded Ineximbank as BTA Bank.

#### Empire Building?

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¶5. (C) Developments at KCB and KPSB coincide with AUB's efforts to expand its operations and enhance its credentials. Banking sector insiders have described to Embassy plans to craft AUB as a flagship institution for a network of banks that include KCB, KPSB, Amanbank and Yssyk Kol Investment Bank (YKIB). KCB and KPSB, as described above, have links to Maxim Bakiyev. Amanbank is run by AUB's former chief executive officer. YKIB's management was ousted in August

BISHKEK 00000385 002.2 OF 003

2007, and its current ownership is unknown.

¶6. (C) In a March 27 meeting with DCM, AUB's Chief Executive Officer Nurdin Abdrazakov presented letters from 11 of 23 banks operating in the Kyrgyz Republic commenting on their relations with AUB. AUB submitted these letters in conjunction with its recent request for U.S. Overseas Private Investment Corporation (OPIC) funding (discussed septel). KCB, KPSB, Amanbank, YKIB, BTA and Bank Bakai provided very positive recommendations. (Note: NBKR Chairman Alapayev formerly headed Bank Bakai, and the bank is reportedly now under his wife's control. End note.)

#### Protecting the Family Jewels

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¶7. (S) With Maxim Bakiyev's ties to KCB and KPSB, it appears that the Bakiyev family has expanded its banking sector interests. When Ulan Sarbanov chaired the NBKR, Maxim Bakiyev reportedly summoned Sarbanov three times to ask that he stop cooperating with a Russian Central Bank investigation of AUB's alleged money laundering activities. Shortly thereafter, Sarbanov was sacked. (See reftel C for more background on this incident.) AUB, which has admitted past improprieties, is seeking explicit U.S. government financial backing to expand ostensibly into retail credit operations. (AUB's OPIC request is discussed septel.)

#### Restricting Market Entry?

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¶8. (S) In early April, Embassy met with representatives of Kompanion, a Mercy Corps-affiliated microcredit institution, which plans to transform the institution into a commercial bank. They told us that no commercial license is issued without Maxim Bakiyev's approval, and that bribe requests reaching up to \$500,000 are being solicited for new commercial licenses. While Embassy can not confirm such demands, Mercy Corps personnel claimed that two recent bank

license applications have been rejected. The NBKR told Embassy such decisions are "confidential," but Embassy has learned that a South Korean-Kazakh venture was rejected. The European Bank for Reconstruction and Development (EBRD) is backing a banking license application by Pro Credit. EBRD officials informed Embassy that they have intervened three times to overcome objections raised by NBKR officials. EBRD officials added that Kyrgyz officials attending an upcoming EBRD gathering in Ukraine should expect an "earful" of complaints.

¶9. (C) Amid rumors that the NBKR wants to reduce the number of banks in the Kyrgyz Republic, NBKR Chairman Alapayev told the Ambassador of desires to rein in exchange offices in order, ostensibly, to help the NBKR control exchange rates.

Comment

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¶10. (S) While continuing its intervention in currency markets to stabilize the Kyrgyz som/dollar exchange rate, the NBKR has also overseen some significant negative developments in the Kyrgyz banking sector. These developments, in Embassy's opinion, signal growing political interference and a weakening of NBKR independence in the banking sector. While Kyrgyz banking circles keep much information close-hold, ownership of banks is rarely publicized and some of this information may be circular reporting, Embassy has heard sufficient information to be concerned about the consolidation of a growing share of banking assets under the Bakiyev family. This concern is shared by a number of other international observers in the Kyrgyz Republic. This banking

BISHKEK 00000385 003.2 OF 003

consolidation mirrors other confirmed instances, particularly in the telecommunications sector, of greater Bakiyev family control of lucrative Kyrgyz businesses. Decisions on the Pro Credit and Mercy Corps-affiliated license requests will illustrate how open the sector remains to non-Bakiyev family interests.

¶11. (SBU) This cable should be read in conjunction with septel regarding AUB's OPIC request.  
YOVANOVITCH